

Message Text

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TAGS: EFIN, MY

SUBJ: WALL STREET JOURNAL ARTICLE

REF: STATE 226644

1. THE GENERAL THRUST OF THE WALL STREET JOURNAL ARTICLE IS CORRECT. RESULT OF THIS AND OTHER ADVERSE PUBLICITY, TOGETHER WITH FACTS DESCRIBED BELOW, IS THAT BOTH FOREIGN AND DOMESTIC INVESTORS ARE REASSESSING THEIR INVESTMENT PLANS FOR MALAYSIA AND HAVE GENERALLY ASSUMED A "WAIT-AND-SEE" ATTITUDE. THE FLOW OF NEW INVESTMENT AT THIS TIME HAS THEREFORE DECLINED SUBSTANTIALLY.

2. PRINCIPAL FACTORS CAUSING DECLINE IN FOREIGN INVESTMENT INCLUDE WORLD-WIDE RECESSION, RECENT EVENTS IN INDOCHINA, PERCEIVED INCREASE IN LOCAL CT ACTIVITY, AMENDMENT TO PETROLEUM ACT (MANAGEMENT SHARES CONCEPT) AND TO MUCH LESSER DEGREE, INDUSTRIAL COORDINATION ACT (ICA). IN ADDITION, THERE IS AT THE WORKING LEVELS OF GOM FIRM PRESSURE URGING SOME EXISTING FIRMS TO MODIFY EQUITY ALONG LINES OF NEW ECONOMIC POLICY. SIMILARLY INVESTORS ARE CONSTANTLY BEING URGED TO ACHIEVE BUMI-
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PUTRA EMPLOYMENT GOALS.

3. SUBSTANTIAL DECLINE IN DOMESTIC INVESTMENT (READ CHINESE) CAUSED IN PART BY SAME FACTORS ABOVE, BUT WITH SUBSTANTIALLY GREATER WEIGHT GIVEN TO ICA, WHICH REQUIRES MANUFACTURERS TO OBTAIN LICENSE FROM MINISTRY OF TRADE AND INDUSTRY TO CONTINUE OPERATIONS. IN ADDITION, HOWEVER, GOM ACTIVITIES IN SEVERAL AREAS, NOTABLY ENTER AND SEARCH REGULATIONS AND COURT PROCEEDINGS, HAS CAUSED SOME QUESTIONING BY CHINESE COMMUNITY REGARDING ITS CONTINUED WELL-BEING AND FUTURE PROSPECTS IN MALAYSIA. WE NOW HAVE INDICATIONS FROM SEVERAL SOURCES OF MODERATE OUTFLOW TO U.S. AND HK AND INDONESIA OF PROFITS WHICH NORMALLY WOULD HAVE BEEN RE-INVESTED IN MALAYSIA. AS YET, WE ARE NOT AWARE OF ANY SIGNIFICANT CHINESE DISINVESTMENT.

4. THERE HAS BEEN CONSIDERABLE FEEDBACK TO THE PM OF EXPRESSIONS OF CONCERN BY ENTITIES AND INDIVIDUALS REGARDING THE ADVERSE EFFECT OF THE PETROLEUM AMENDMENT ON FOREIGN INVESTMENT AND THE ICA ON DOMESTIC INVESTMENT. PARTLY AS A RESULT, A NUMBER OF ACTIONS HAVE BEEN TAKEN BY GOM TO REESTABLISH THE PERCEPTION OF MALAYSIA AS A SAFE AND DESIRABLE PLACE FOR FOREIGN INVESTMENT. THE UNPUBLICIZED MAY 28 CABINET DECISION NOT TO IMPLEMENT THE PETROLEUM ACT AMENDMENT AT THIS TIME IS NOTABLE. REPEATED STATEMENTS BY THE PM AND OTHER SENIOR OFFICIALS HAVE EMPHASIZED THAT NATIONALIZATION IS NOT INTENDED AND INDEED IS PRECLUDED BY THE CONSTITUTION. INVESTMENT MISSIONS TO EUROPE AND THE MIDDLE EAST AND SPEECHES IN NEW YORK AND BOSTON HAVE REITERATED THAT FOREIGN INVESTMENT IS NEEDED, AND SOUGHT. A MAJOR THREE-DAY INTERNATIONAL INVESTMENT SEMINAR ON INVESTMENT OPPORTUNITIES IN MALAYSIA CO-SPONSORED BY FIDA AND THE ASSOCIATION OF BANKS IS SCHEDULED OCT 27-29 WITH HIGH-LEVEL PARTICIPATION INCLUDING THE KEYNOTE ADDRESS BY THE PM AND PARTICIPATION BY MINISTERS, DEPUTY MINISTERS, AND SECRETARIES-GENERAL. WE UNDERSTAND THAT CENTRAL BANK GOVERNOR ISMAIL WILL ADDRESS SOME FORTY CHIEF EXECUTIVE OFFICERS IN CHICAGO IN JANUARY 1976 AND IS CONSIDERING CONFIDENTIAL

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SIMILAR MEETINGS IN HOUSTON AND LOS ANGELES. WE UNDERSTAND FURTHER THAT PM HAS DESIGNATED TAN SRI RAJA MOHAR TO HEAD A SELECT COMMITTEE ON THE INVESTMENT CLIMATE AND THAT OTHER COMMITTEES INCLUDING PRIVATE BUSINESSMEN ARE BEING FORMED TO ASSURE NECESSARY DIALOGUE AND FEEDBACK.

5. ON ICA, CONSIDERABLE DIALOGUE AND NEGOTIATION IS

GOING ON BETWEEN MINISTRY OF TRADE AND INDUSTRY AND CHINESE BUSINESSMEN ON LANGUAGE OF REGULATIONS TO IMPLEMENT ICA. MINISTER HAMZAH WAS EARLIER RESPONSIVE TO REPRESENTATIONS BY MCA PARLIAMENTARIANS ON THIS SUBJECT, AGREEING THAT LICENSES WOULD BE AUTOMATICALLY GRANTED TO ALL EXISTING FACTORIES. HAMZAH IS NOW REPORTED TO HAVE AGREED TO FURTHER MODIFICATIONS AND AGREED TO CLEAR DRAFT LANGUAGE OF REGULATIONS WITH CHINESE BUSINESS REPRESENTED BY FEDERATION OF MALAYSIAN MANUFACTURERS BEFORE PROMULGATION.

6. AT POLICY LEVEL, THERE IS INTERNAL DEBATE ON THE EFFICACY OF PRESENT RADICAL COURSE WHICH WAS SET ESSENTIALLY BY RAZALEIGH AND ABDULLAH AHMAD WITH, WE BELIEVE, EITHER CONCURRENCE OR ACQUIESCENCE OF PM, WITH THE LATTER PERHAPS FAILING TO UNDERSTAND OR UNDERESTIMATING INVESTOR REACTION. RADICAL POSITION, WHILE POTENTIALLY DISASTEROUS, IS ATTRACTIVE TO SOME ELEMENTS OF MALAY POPULATION AND IS DIFFICULT, IN POLITICAL TERMS, TO ARGUE AGAINST. THE REAL TEST WILL BE WHETHER THE MODERATES, APPRECIATING THE ESSENTIAL NATURE OF INDUSTRIAL INVESTMENT AS THE ENGINE OF THE NEP, WILL PREVAIL IN REESTABLISHING AN ACCEPTABLE FRAMEWORK FOR FOREIGN AND PRIVATE INVESTMENT. THERE HAVE BEEN RUMORS THAT RAZALEIGH HAS BEEN INSTRUCTED TO KEEP QUIET, THAT HE WILL BE GIVEN THE FINANCE PORTFOLIO AS A MECHANISM FOR EASING HIM OUT, THAT THE PETROLEUM ACT AMENDMENT WILL BE FURTHER AMENDED IN THE FORTHCOMING SESSION OF PARLIAMENT TO REMOVE OR MODIFY THE OFFENSIVE MANAGEMENT SHARES PROVISION, AND THAT THE PETROLEUM ADVISORY COUNCIL WILL BE ACTIVATED AS A MEANINGFUL CONTROL MECHANISM. THESE ARE TEMPTING STRAWS, BUT THE GOM HAS ITS OWN VERY SPECIAL STYLE OF OPERATION WHICH MAKES IT DIFFICULT TO

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CULT, IF NOT IMPOSSIBLE, TO PREJUDGE THE OUTCOME. ON BALANCE WE ARE INCLINED TO BELIEVE THAT THE LONG-ESTABLISHED PATTERN OF MODERATION AND EVEN-HANDEDNESS, DRIVEN BY SELF-INTEREST, WILL PREVAIL TO THE REASONABLE SATISFACTION, OR AT LEAST ACCEPTANCE, OF BOTH FOREIGN AND DOMESTIC INVESTORS. WHILE EARLY CHANGE TO MORE MODERATE COURSE IS DESIRABLE, GOM HAS DEMONSTRATED THAT SENSITIVE MATTERS SUCH AS THIS ARE SUBJECT TO PROLONGED MANEUVERING AND SUCH IS EXPECTED IN THIS INSTANCE.

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